

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Tuesday, February 27, 2018
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Tuesday, February 27, 2018, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jerry Dale, Patrick Krishock, David Landeros, Sharon Mathews, Belinda Weaver, Michele Tuttle, and Vivian Wood.

Board Members Absent

Jose Elizondo, Jr.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar, Mike Reissig, Deputy Comptroller, Phillip Ashley, Associate Deputy Comptroller and Cheryl Scott, Internal Auditor

Texas Treasury Safekeeping Trust Company (“Trust Company”) Staff Present

Paul Ballard, Chief Executive Officer and Chief Investment Officer; Danny Sachnowitz, Deputy CIO; Marianne Dwight, General Counsel; Genoveva Minjares, Deputy Chief Financial Officer; Hugh Ohn, Director of Accounting, Strategy and Planning; and Nora Arredondo, Special Projects Coordinator.

Additional Participants

Deborah Cunningham, Federated Advisory Company; and Jerry Landrum, Federated Securities Corporation.

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:02 a.m.

Approval of Minutes from November 15, 2017 Meeting (Tab 1)

A motion was made by Ms. Sharon Mathews to accept and approve the minutes from the November 15, 2017 board meeting. The motion was seconded by Mr. David Landeros and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Deborah Cunningham reported that for the quarter ending December 31, 2017, the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”), GASB Statement No. 79, and with their respective investment policies. Both pools maintained AAAm ratings by Standard and Poor’s and net asset values were never less than \$0.995 or greater than \$1.005. Both pools also met specific portfolio composition and maturity limitation guidelines set out in their respective investment policies. Both portfolios maintained a weighted average maturity of less than sixty days and the maximum maturity for any individual security in the portfolios did not exceed twenty-four months.

Ms. Cunningham reported that the TexPool portfolio's assets experienced a seasonal increase in assets by approximately \$1.9 billion or 12.4%. The TexPool portfolio balance was approximately \$17.5 billion and produced a net yield of 1.18% as of December 31, 2017. The TexPool Prime portfolio also experienced an increase in assets by approximately \$1 billion or 25%. The TexPool Prime portfolio balance was approximately \$5.2 billion and produced a net yield of 1.39% for the same period. The maturity dates of the assets in the TexPool portfolio were primarily in the 8 to 30 days range and highly liquid, in anticipation of seasonal participant outflows. The TexPool Prime portfolio also experienced a decrease in its weighted average maturity. The majority of the assets had maturity dates in the 1 to 30 days range. The Tex Pool Prime portfolio's composition increased its holding of variable rate notes and repurchase agreements in anticipation of seasonal outflows and rising interest rates. Ms. Cunningham reported that the Federal Reserve (the "Fed") increased interest rates by .25% and indicated they were likely to make three more moves in 2018. She explained that both Pools benefited from the nominal interest rate increase.

Ms. Cunningham reported that both pools remained competitive among their peer groups. TexPool was ranked number one and TexPool Prime was ranked number three among their peer groups in yield comparisons. Ms. Cunningham explained the various stress test scenarios and results for both pools, which demonstrated the Pools' ability to maintain a constant dollar value under unlikely extreme or extraordinary scenarios. Federated is comfortable with the stress testing and the way that the portfolio is positioned. Overall, Federated continues to expect slow and steady economic growth for the remainder of the year.

Ms. Cunningham reviewed market conditions during the fourth quarter of 2017. She reported that the Federal Reserve (the "Fed") demonstrated increased confidence that the domestic economy is moving in the right direction by raising interest rates by 25 basis points to a range of 1.25%-1.50%. She reported that the labor market was continuing to improve and consumer confidence also rose. Gross domestic product appeared to hover around 3%. Ms. Cunningham stated that Federated believes the Fed will continue to raise interest rates in 2018. Overall, Federated expects a slow and steady economic growth environment for the upcoming new year.

TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2017 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the fourth quarter of 2017. The Board previously requested that the participant summary graph depict the Pools separately. Mr. Sachnowitz reviewed each graph, which illustrated good diversification of the Pools' investor bases. He presented an overview of the historical yields for both Pools compared to the Federal Funds rate and other target benchmarks. He explained that the graph on page five, depicting historical pool yields, demonstrated the positive effect of the interest rate hike and noted that TexPool Prime has continued to surpass the Fed Funds rate since March 2016. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. There were virtually unchanged allocations to repurchase agreements and agency securities. TexPool Prime's portfolio's most notable change was the increased allocation to repurchase agreements, from 4% to 18%, and allocations to government securities were eliminated. He explained that the stability of the Net Asset Values (NAVs) of the portfolios demonstrates low price volatility. He reported that TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools.

Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 4)

Mr. Jerry Landrum reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. He explained how TexPool Prime takes immediate advantage of opportunities within the commercial paper market as interest rates rise, leading to a greater dispersion in returns. Mr. Landrum explained that after each of the interest rate hikes in 2017, the seven-day net yield for TexPool Prime rose at least ten basis points in the month following the announcement.

Mr. Landrum reported that as of December 31, 2017, TexPool had 2,445 participants, an increase of fourteen from the previous quarter. TexPool Prime's participant base also grew and now had 297 participants. Mr. Landrum reviewed the competitive landscape for the pools and the conference schedule. He reported that no complaints were reported or filed for the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items were discussed. The next meeting date will be scheduled for some time in May.

Public Comments

Comptroller Hegar asked if there were any public comments. There were none.

Adjourn

Meeting was adjourned at 10:35 a.m.